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Message Text

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60
ACTION EUR-25

INFO OCT-01 ISO-00 CIAE-00 PM-07 INR-11 L-03 ACDA-19

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E.O. 11652: N/A
TAGS: MCAP, BEXP, NATO, MARR
SUBJECT: NATO-HAWK BOARD OF DIRECTORS (BOD) MEETING, 1-3 OCT 74

SECDEF FOR OASD (I&L) MR. CUFFE; USNHLO FOR LTC NELSON; DA
FOR DCSLOG, MR. JACKSON.

REF: HMO/2.2.01/3163/74 (FINAL AGENDA)

BEGIN SUMMARY. MISSION NOTES FOR WASHINGTON ATTENTION THREE TIMES OF SPECIAL INTEREST TO THE US ON AGENDA FOR NATO-HAWK BOARD OF DIRECTORS (BOD) MEETING 1-3 OCT 74. SUBJECTS ARE TWO KLYSTRON TUBE PROCUREMENTS AND COMPENSATION TO THE US FOR US SHARE OF JOINTLY OWNED MAINTENANCE FLOAT. MISSION REQUESTS CONCURRENCE ON PROPOSED US POSITION BY COB 27 SEP. END SUMMARY.

1. AGENDA FOR OCT 1-3 NATO-HAWK BOARD OF DIRECTORS (BOD) MEETING (REFTEL) INCLUDES THREE ITEMS OF SPECIAL INTEREST TO THE US. THESE ARE: INCLUDES THREE ITEMS OF SPECIAL INTEREST TO THE US. THESE ARE:

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A. ITEM 3.5 - PROCUREMENT OF 845 RELFEX KLYSTRONS.

B. ITEM 3.6 - PROCUREMENT OF 400 POWER KLYSTRONS.

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C. ITEM 3.7 - SHARING OUT OF THE MAINTENANCE FLOAT.

US BOD MEMBER (COL LYNCH) EXPECTS CONSIDERABLE DEBATE OVER ISSUE
OF POWER KLYSTRON PROCUREMENT AND RESULTANT PROTEST OF CONTRACT
AWARD FROM US FIRM, VARIAN ASSOCIATES. FRANCE (GEN CONCHIE) HAS
PUT THE BOD ON NOTICE THAT FRANCE STRONGLY REJECTS US ATTEMPTS
TO REVERSE THE KLYSTRON CONTRACT AWARDED TO THOMSON-CSF.
FURTHER, FRANCE HAS THREATENED TO REOPEN AN EARLIER CASE OF
PRODUCTION SHARING WHICH FAVORED AN FRG FIRM OVER A FRENCH FIRM
IN PRODUCTIONOF THE IMPROVED PLATOON COMMAND POST (IPCP).
DEBATE OVER POWER KLYSTRON PROCUREMENT COULD
HAVE SOME ADVERSE AFFECT ON RESOLUTION OF THE OTHER TWO
ISSUES OF INTEREST TO THE US, BUT THIS CONTINGENCY APPEARS UNLIKELY.
OF SIGNIFICANCE, HOWEVER, IS THE LARGER ISSUE OF THE DIRECT FRENCH
CHALLENGE TO THE US ON THE QUESTION OF CONTINUING US INDUSTRIAL
PARTICIPATION (READ COMPETITION) IN LOGISTIC SUPPORT PROCUREMENT
FOR NATO HAWK. UNDER THE GUISE OF PROTECTION OF A STRONG EUROPEAN
(FRENCH) SUPPORT BASE FOR NATO/HAWK, FRANCE COULD ATTEMPT TO SWING
THE FORTHCOMING CONTRACT AWARD FOR REFLEX KLYSTRONS TO THOMSON-CSF
IN SPITE OF THE EXISTING 40 PERCENT SPREAD BETWEEN THOMSON AND
VARIAN BIDS. BOD SUPPORT FOR SUCH OVERT PRESSURE TACTICS IS
UNLIKELY, BUT FRANCE MIGHT MAKE SUCH A MOVE AND THEN CONCEDE TO
WITHDRAW THE PROPOSAL PROVIDED THAT THE POWER KLYSTON PROCUREMNT
REMAINS INTACT (WITH THOMSON).

2. US BOD MEMBER VISITED NATO-HAWK GENERAL MANAGER (GEN MANCINI)
ON SEP 24 IN AN ATTEMPT TO FORMULATE A SUCCESSFUL STRATEGY FOR
RESOLVING IN FAVOR OF THE US BOTH THE POWER KLYSTRON CONTRACTUAL
PROBLEM AND COMPENSATION TO THE US FOR MAINTENANCE FLOAT DISPOSITION.
GEN MANCINI WILL NOT SUPPORT (AND NEITHER WILL THE BOD IN UNANIMOUS
AGREEMENT) A TERMINATION OF THE THOMSON CONTRACT FOR POWER KLYSTRONS,
REGARDLESS OF POSSIBLE COST SAVINGS. HE WAS INTERESTED, HOWEVER,
AS A NEGOTIATOR OF LONG STANDING, IN THE US PROPOSAL TO CONSIDER
SPLITTING THE PROCUREMENT BETWEEN THOMSON AND VARIAN. UPON
CONTEMPLATION OF THE UNPLEASANT FRENCH REACTION WHICH IS BOUND TO
ENSURE, GEN MANCINI IS UNWILLING TO CONFRONT GEN CAUCHIE HEAD-ON
WITH SUCH A PROPOSAL EMANATING FROM THE NATO-HAWK MANAGEMENT
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OFFICE (NHMO). THEREFORE, THE US REP PROPOSES TO MAKE THE SUGGESTION
OF A PROCUREMENT SPLIT TO THE BOD AT THE OCT MEETING. THE FOLLOWING
FACTS(AND ASSUMPTIONS) ARE PERTINENT TO THIS PROPOSAL:

A. VARIAN ASSOCIATES HAS INDICATED WILLINGNESS TO ACCEPT
AN APPROPRIATE FRACTION OF THE ORIGINAL PROCUREMENT TENDER. IMPLICIT
IN THIS ACCEPTANCE IS SOME DEGREE OF SATISFACTION OF THEIR PROTEST
TO NAMSA.

B. THOMSON REACTION IS UNKNOWN AT THIS TIME. CERTAINLY
THE FIRM WANTS THE ENTIRE PROCUREMENT. IT IS POSSIBLE THAT ONLY
A GENUINE THREAT OF A CONTRACT REVERSAL WOULD PROMPT THEM TO ACCEPT

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A COMPROMISE ORDER WITHOUT COST PENALTY AGAINST NATO-HAWK. FOR WHAT IT IS WORTH, PRELIMINARY (ORAL) REPORT FROM NATO AUDITORS INDICATES THAT THOMSON PROBABLY HAS NOT INCURRED SIGNIFICANT COSTS AGAINST THE CONTRACT AWARD TO DATE. HOWEVER, DESPITE URGING FROM BOD CHAIRMAN, NEITHER NAMSA NOR NHMO HAS DISCUSSED CANCELLATION COSTS WITH THOMSON.

C. US REP HAS ASKED NETHERLANDS, FRG AND DENMARK BOD MEMBERS FRO SUPPORT FO THE SPLIT PROCUREMENT APPROACH. ALL DIRECTORS, HAVING PARTICIPATED IN A BACKFIRING PROCUREMENT DECISION WHICH WAS BASED ON INCORRECT INFORMATION, ARE UNDERSTANDABLY GUN-SHY. THE INTENSITY OF THE EXPECTED FRENCH CHALLENGE TO US INDUSTRIAL COMPETITION IN GENERAL COULD INFLUENCE ADVERSELY THE BOD MEMBERS, INCLUDING THOSE
LISTED ABOVE (WHO NORMALLY VOTE FOR THE MOST ECONOMICAL COURSE OF ACTION). DESPITE THE POSSIBILITY, THE SUGGESTION OF A SPLIT PROCUREMENT APPEARS TO BE THE BEST COMPROMISE SOLUTION AT THIS TIME.
ACTION REQUESTED: MISSION REQUESTS CONCRRENCE OR ALTERNATE GUIDANCE BY COB 27 SEP.

3. BASIC TO THE PROCUREMENT PROBLEMS SURROUNDING THE VARIAN PROTEST IS THE CONFUSING PLETHORA OF US REGULATIONS AND MODIFYING INSTRUCTIONS

PERTINENT TO RANSPORTATION OF CLASSIFIED ITEMS, WHICH APPARENTLY ARE APPLIED IN THE FIELD BY THE DEFENSE CONTRACT ADMINISTRATIVE SERVICE REGIONS (DCASR). ACTION REQUESTED: US BOARD
MEMBER REQUIRES CONFIRMATION OF MISSION UNDERSTANDING OF CURRENT POLICY. SEE SEPTEL, THIS DATE.

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4. AFTER A HALF-HOUR VERBAL SPARRING SESSIONON ISSUE OF MAINTENANCE FLOAT COMPENSATION TO THE US, GEN MANCINI AGREED TO PROPOSE TO THE BOD A SETTLEMENT OF THE US CLAIM ALONG THE FOLLOWING LINES. THE NHMO, WITH ASSISTANCE FROM NATIONAL FINANCIAL EXPERTS, WILL ATTEMPT TO ARRIVE AT FAIR VALUATION OF SPECIFIC ITEMS OF EQUIPMENT FROM THE JOINT MAINTENANCE FLOAT DESTINED FOR GREECE, ITALY AND DENMARK, WHICH EMANATE FROM THE US SHARE OF THE FLOAT. NHMO WILL PROPOSE A REBATE TO THE US FROM THE US SETTLEMENT WITH NHMO OF $12,460,033 IN MAY 1972. AT THIS TIME IT IS NOT POSSIBLE TO ESTIMATE WITH ANY PRECISION THE AMOUNT OF THE REBATE. PRIOR TO FINAL SETTLEMENT WITH THE US THE BOD WILL AGREE ON AMOUNT AND METHOD OF REPLAYMENT BY RECIPIENT NATIONS TO THE NHMO FOR DESIRED ITEMS OF EQUIPMENT.
MISSION SUGGESTS THAT WASHINGTON CONSIDER FOR PLANNING PURPOSES A MAXIMUM STELLEMENT OFFER OF $400,000 TO $500,000 AND MORE LIKELY A FIGURE OF $200,000 TO $300,000, AGAINST THE ESTIMATED ORIGINAL VALUE OF THE US SHARE OF $953,658 ESTABLISHED IN 1972, BUT BASED ON ESTIMATED PRODUCTION COSTS WHICH DATE BACK TO 1965. IN ANY CASE, US REP WILL SEEK FURTHER GUIDANCE BEFORE AGREEING TO ANY FRANCTIONAL SETTLEMENT OFFER.

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AT THIS TIME US RETRIEVAL OF EQUIPMENT SUCH AS RANGE-ONLY-RADAR (R OR)

OR MISSILE LAUNCHERS APPEARS UNLIKELY. GEN MANAGER STATES THAT MEARLY ALL USEFUL MAJOR ITEMS OR ASSEMBLIES ARE IN SUE OR PLANNED FOR OVER-HAUL. NHMO WILL LOOK CLOSELY INTO THIS MATTER AND CONFIRM STATUS. US REP REITERATED US POSITION THAT IT IS NOT OUR INTENTION TO INTERFERE IN ANY WAY WITH UPGRADING OF NATO-HAWK. WEMUTST, HOWEVER, CONTINUE TO SEEK JUST FINANCIAL COMPENSATION FOR OUR SHARE OF THE MAINTENANCE FLOAT.

5. FORTUNATELY FOR THE US, GEN MANCINI'S PROPOSED COURSE OF ACTION IS THE MOST SIMPLE COURSE POSSIBLE IN A RATHER COMPLEX SETTLEMENT. MISSION VISUALIZES THAT MINIMAL MAAG INVOLVEMENT (DENMARK, GREECE AND ITALY) MAY BECOME NECESSARY TO VERIFY CONDITION AND UTILIZATION OF CERTAIN EQUIPMENT UNDER REPECTIVE NATIONAL CONTROL.
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